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No.

Supreme Court, U.S.
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JOSEPH F. SPANIOL, JR.
CLERK

In the Supreme Court of the United States

OCTOBER TERM, 1987

MILLER INSITUFORM, INC. and
THOMAS E. SMITH,
Petitioners,

vs.

INSITUFORM OF NORTH AMERICA, INC.
and WILLIAM C. MILLER
and IRA B. MILLER,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

GAIL P. PIGG
(Counsel of Record)
219 Second Avenue, North
First Floor Suite
Nashville, Tennessee 37201
(615) 244-0001
Counsel for Petitioner

E. L. MENDENHALL, INC., 926 Cherry Street, Kansas City, Mo. 64106, (816) 421-3030

QUESTIONS PRESENTED FOR REVIEW

I

Once the holder of a patent has granted the right to license the patented product in interstate commerce, in reliance upon which large sums of money were expended by licensee to establish its business, can the patent holder, for the alleged purpose of taking over the licensee's territory for itself, terminate that license arbitrarily, without notice, causing a shutdown of licensee's business, and be free from the sanctions of the monopoly statutes (15 U.S.C. §2) on the theory that because it holds a patent it can exclude all others from selling its patented product?

II

Does the patent statute give the patent holder freedom to abuse its licensees for a monopolistic purpose without fear of running afoul of the monopoly laws and with complete impunity except to the extent the licensee might have a state court action?

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No.

In the Supreme Court of the United States

OCTOBER TERM, 1987

MILLER INSITUFORM, INC. and
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INSITUFORM OF NORTH AMERICA, INC.
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and IRA B. MILLER,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner prays that a writ of certiorari issue to review the final Order of the Court of Appeals for the Sixth Circuit entered in October 6, 1987.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is published in 830 F. 2d 606 (6th Cir. 1987) and is printed in Appendix A hereto at p. A1. The Judgment of the Court of Appeals is printed in Appendix B at p. A9. The Order of the District Judge who entered the initial Summary Judgment ruling is unreported and is printed in Appendix C at p. A11. The findings of the District Judge are set forth in the Transcript of Hearings beginning on Appendix D at p. A12.

JURISDICTION

The final Order of the Court of Appeals was decided and entered October 6, 1987. The jurisdiction of this Court is invoked under 28 U.S.C. §1254 (1).

STATUTES INVOLVED

15 U.S.C. §2. *Monopolizing trade a felony; penalty.*

"Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court."

35 U.S.C. §154. *Contents and term of patent.*

"Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof . . ."

STATEMENT OF THE CASE

This case arose under a claim brought in the District Court for the Middle District of Tennessee under Section II of the Sherman Act, 15 U.S.C. §2. Plaintiffs allege that defendant, Insituform of North America (INA), unlawfully attempted to monopolize the relevant market by wrongfully revoking plaintiff's license to sell and install a patented process for the rehabilitation of pipe lines, said revocation being for the purpose of taking back over the territory for the benefit of defendant and another licensee.

The District Court granted a Summary Judgment against plaintiffs on the basis that the termination could not constitute a violation of the monopoly laws, even for a monopolistic purpose, since INA has a statutory right to exclude all others from using its patented process under 35 U.S.C. §154. The rationale of the District Court was that because INA had a "hundred percent of the pie, it was beyond the reach of the Sherman Act". (App. A17). The Court of Appeals affirmed the District Court's Order of Summary Judgment, adopting the same conclusions.

It is plaintiffs' position that once the patent holder has induced the public to purchase a license to sell the patented product, he has watered down his percentage and no longer has one hundred percent of the pie. Plaintiffs assert that the patent statutes were never intended to permit a patent holder to entice and induce other parties to purchase a license to sell the patented product, only to destroy their business after they have built it up by wrongfully terminating the license for the purpose of retaking that territory.

The relevant facts are as follows:

1. INA is the exclusive licensee in the United States for the use of the patented process known as the Insituform Process (a method of repairing and rehabilitating pipelines).

2. INA grants sub-licenses to individuals or other entities to use and sell the Insituform Process in different areas of the United States.

3. In February, 1983, Plaintiff, Miller Insituform Inc. (MII) entered into an exclusive sub-license agreement (herein referred to for convenience as "license agreement") with INA to exploit, use and sell the Insituform Process in Kentucky, Tennessee and Southern Ohio. Plaintiffs invested almost $500,000.00 in the licensee company and had several people on the payroll. The Insituform Process constituted the sole business of MII and the business rapidly progressed.

4. INA, in addition to being the licensor of the Insituform Process, also has an interest as an owner in one or more of the entities operating as a licensee.

5. In the early part of 1984 defendant, INA, for the benefit of another of its licensees, began attempts to take over the territory covered by the license of MII. The method ultimately used by INA to achieve this goal was to notify MII by letter of May 9, 1984 that the license was terminated effective May 15, 1984. This termination notice was received by MII on May 13, 1984.

6. The business of MII was totally destroyed by the termination. Contractual jobs in progress were halted, all employees were laid off and the operation was shut down.

7. The reason given for termination by INA was that MII had not achieved a net worth of $500,000.00 as initially required by the license agreement. MII charges that the net worth requirement had been waived; that this reason was given as a subterfuge to permit INA to retake the territory for the benefit of itself and another licensee with whom INA was negotiating a merger.

REASONS FOR GRANTING THE WRIT

I

The Construction Placed Upon 35 U.S.C. §154 by the Court of Appeals Permits a Patent Holder to Misuse the Patent Privilege for a Monopolistic Purpose, Yet Remain Free of the Sanctions of 15 U.S.C. §2.

The Court of Appeals acknowledges that the defendant might be liable for its actions in state court for breach of contract or for fraud and misrepresentation. It concludes, however, that defendant is free of the sanctions of the monopoly statutes because it had the right to exclude others from manufacturing, using and selling his inventions. By terminating the sublicense agreement the Court concludes that, INA "merely exercised his power to exclude others from using the Insituform Process, as was its right under 35 U.S.C. §154". (App. A7).

Therefore, under the conclusions reached by the Court of Appeals, the holder of a patent can transfer for a valuable consideration the right to use and sell the patented product in a specified territory, wait until the licensee has built a going business, then arbitrarily terminate that license, putting the licensee out of business, and take back

over the territory for himself for a monopolistic purpose, yet be free of the sanctions of 15 U.S.C. §2 because of the powers given him by the patent act. Thus, the patent statute gives the patent holder the right to engage in fraudulent transactions for a monopolistic purpose and deliberately breach contracts for a monopolistic purpose, but still be protected from a monopoly claim.

Petitioners submit that 35 U.S.C. §154 gives the patent holder only the right to *exclude all others* from the sale of his product. It does not give the patent holder the right to abuse his licensees for a monopolistic purpose once he has determined that he would *include* that licensee in the sales of his product. Petitioners submit that the patent holder no longer has the protection of 35 U.S.C. §154 as to a licensee once he has sold for a profit the right to use, purchase or sell the patented product.

II

The Opinion of the Court of Appeals Is in Conflict With Opinions in Other Districts and With the Construction Placed on 35 U.S.C. §154 by the Supreme Court.

This Court has previously stated that the exclusive monopoly granted a patentee should not be used as a basis for the violation of other laws, such as antitrust laws or in restraint of trade, or to promote forbidden trade practices and when so used the Courts will not lend their aid in enforcing the patent monopoly. *Morton Salt Co. v. Suppiger,* 314 U.S. 488, 492, 62 S. Ct. 402, 86 L. Ed. 363. Petitioners submit that to induce a member of the public to purchase for a valuable consideration a license to use the patented product, only to wrongfully terminate the license and take back over the territory after the business

is established is a "forbidden trade practice" and as such should not be sanctioned as a permissible right under the patent act.

Petitioners maintain that the use made of its patent by INA as above specified is a misuse of the patent as well as a use of a patent "unreasonably to restrain commerce" and one which other circuits have indicated a refusal to sanction as proper under the patent act. *Barber-Colman Co. v. National Tool Co.,* (6th Cir. 1943) 136 F. 2d 339; *Brownell v. Ketcham Wire & Mfg. Co.,* (9th Cir. 1954) 211 F. 2d 121, 129; *Sperry Products Inc. v. Aluminum Co. of America,* (D.C. Ohio 1959) 171 F. Supp. 901; *Laitrum Corp. v. King Crab Inc.,* (D.C. Alaska 1965) 245 F. Supp. 1019.

Petitioners contend that patents are privileges; that the rights attributed to them by Congress must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent law and that Congress never intended that the patent right be used as a vehicle for patent holders to abuse their licensees. *Barber-Colman Co. v. National Tool Co., supra; Sears, Roebuck & Co. v. Stiffel Co.,* (Ill. 1964) 84 S. Ct. 784, 376 U.S. 225, 11 L. Ed. 2d 661, rehearing denied, 84 S. Ct. 1131, 376 U.S. 973; *U.S. v. Patterson,* (D.C. Ohio 1912) 205 F. 292.

Patent rights for a patented article cannot be used as a shield to nullify the antitrust statutes. *U.S. v. Eastman Kodak Co.,* (D.C. N.Y. 1915) 226 F. 62, 255 U.S. 578, 65 L. Ed. 795; *U.S. v. Motion Pictures Patents Co.,* (D.C. Pa. 1915) 292 F. 800.

CONCLUSION

The decision of the Court of Appeals, if not reversed, gives patent holders the freedom to abuse their licensees for a monopolistic purpose through fraud, deceit, breach of contract and various other means and yet be free of the sanctions of the monopoly act under the theory that the patent act permits such abuse. The decision invites greater fraud and abuse in the marketplace by patent holders. This Court is called upon to clarify the difference in the right to *exclude* others as permissible under the patent act versus what constitutes an *abuse* of the privilege granted by the patent act.

Respectfully submitted,

GAIL P. PIGG
219 Second Avenue, North
First Floor Suite
Nashville, Tennessee 37201
(615) 244-0001
Attorney for Petitioner

CERTIFICATE OF SERVICE

I hereby certify that three (3) copies of the foregoing Petition for a Writ of Certiorari and Appendix have been forwarded by first class mail, postage paid to Steven A. Riley, R. Dale Grimes, BASS, BERRY & SIMS, 2700 First American Center, Nashville, Tennessee 37238, Attorneys for Defendant-Appellee, Insituform of North America, Inc. and to Andree Kahn Blumstein, TRABUE, STURDIVANT and DEWITT, 27th Floor, L & C Tower, Nashville, Tennessee 37219, Attorneys for William C. Miller and Ira B. Miller this the 18th day of December, 1987.

GAIL PIGG

APPENDIX

APPENDIX A

RECOMMENDED FOR FULL TEXT PUBLICATION
See, Sixth Circuit Rule 24

No. 86-5446

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

MILLER INSITUFORM, INC., and
THOMAS E. SMITH,
Plaintiffs-Appellants,

v.

INSITUFORM OF NORTH AMERICA, INC.; WILLIAM C. MILLER, and IRA B. MILLER,
Defendants-Appellees.

ON APPEAL from the United States District Court for the Middle District of Tennessee.

Decided and Filed October 6, 1987

Before: KRUPANSKY and GUY, Circuit Judges; and GILMORE,* District Judge.

GILMORE, District Judge. Plaintiffs appeal the district court's dismissal of their claim brought under Section II of the Sherman Act, 15 U.S.C. § 2, alleging that defendant Insituform of North America (INA) unlawfully

*The Honorable Horace W. Gilmore, United States District Judge for the Eastern District of Michigan, sitting by designation.

attempted to monopolize the relevant market by revoking plaintiffs' license to sell and install a patented process for the rehabilitation of pipe lines.

The district court granted summary judgment for defendant INA on the antitrust claims, and dismissed the remaining pendent state law claims without prejudice for want of federal jurisdiction.

The only issue on appeal is whether, by terminating an agreement to sublicense a patent, the exclusive licensee of the patent violates Section 2 of the Sherman Act which prohibits monopolization or attempts to monopolize. We hold there is no violation of Section 2 under these circumstances, and affirm the district court's order of summary judgment dismissing appellants' complaint.[1]

I

The Insituform process is a patented process for the rehabilitation of pipe lines. The patent is owned by Insituform International, N.V., a Netherlands Antilles Corporation. In June of 1980, Insituform International entered into a licensing agreement with INA, conveying to INA, the exclusive right to the patented process throughout the United States, except in California. Subsequently, INA granted exclusive sublicenses to certain designated territories throughout the United States. One such sublicense was granted to plaintiff Miller Insituform, Inc. (MII) for the territories of Tennessee, Kentucky, and certain portions of Ohio. Subsequent to this sublicense agreement, INA allegedly conspired to take back control

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1. Appellants concede that the district court's disposition removed all federal claims from the case leaving the district court without jurisdiction over the remaining pendent claims because of lack of diversity.

of MII's exclusive territory. On or about May 9, 1984, INA terminated the sublicense agreement, allegedly because MII had failed to provide a balance sheet showing a net worth of at least $500,000, as was required under the terms of the license agreement.

II

Appellants assert INA's termination of the sublicense agreement was without justification, and was a calculated move by INA to retake appellants' territory for the benefit of INA and other sublicensees. They claim that INA has an ownership interest in one or more of its other sublicensees, and that, in effect, it has thereby entered the market, enabling it to control prices. They claim INA accomplished this by terminating the sublicense agreement with appellants on the pretext that appellants had failed to satisfy a $500,000 net worth requirement.

INA argues that, even assuming, arguendo, it controlled 100 per cent of the relevant market, no Section 2 violation could occur because INA had the right under 35 U.S.C. § 154 to exclude all others from using the Insituform process whenever, and for whatever reason, it chose. Simply stated, it argues that, by virtue of the patent laws, INA enjoyed a lawful monopoly and could therefore exclude others from using the Insituform process, and even enter into the market and practice the process itself (vertical integration) without committing actionable antitrust violations.[2]

---

2. INA acknowledges that a "patent monopolist" is not immune from the antitrust laws, but maintains it has not abused its patent monopoly power in such a way as to trigger antitrust liability.

The issue here, therefore, is whether INA's action in terminating its sublicense agreement with MII constituted a violation of Section 2 of the Sherman Act. At issue is the "obvious tension between the patent laws and antitrust laws." *United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981). While this Circuit has not dealt specifically with the issue, other circuits have reached the conclusion that a patentee is free to control licensing for the exclusive use of its patent without running afoul of the prohibitions against monopoly contained in the Sherman Act.[3]

III

This case requires consideration of two federal statutory schemes, the antitrust laws and the patent laws. Under Section 2 of the Sherman Act, 15 U.S.C. § 2, it is a violation of the antitrust laws to

> monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States . . .

A Section 2 Sherman Act violation has two elements:

> (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.

United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966). But, under the patent laws, 35 U.S.C. § 154, it is provided:

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3. *See United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982).

> Every patent shall contain . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years, . . . of the right to exclude others from making, using, or selling the invention throughout the United States, . . .

It is thus clear that a patentee holds a legal monopoly *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969). As one court has observed, there is a contradiction in terms between the antitrust and patent laws:

> There is an obvious tension between the patent laws and antitrust laws. One body of law creates and protects monopoly power while the other seeks to proscribe it. . . . "The patent laws which give a 17-year monopoly on 'making, using, or selling the invention' are in *pari materia* with the antitrust laws and modify them *pro tanto*." *Simpson v. Union Oil Co.*, 377 U.S. 13, 24 (1964).

Westinghouse, supra at 646-47.

Although a patentee has a limited monopoly granted by the patent laws, merely holding a patent fails to render one totally immune from the antitrust laws. The Ninth Circuit pointed out that where a patentee seeks to expand the limited monopoly granted by the patent laws by misuse, agreement, or accumulation, it is subject to the antitrust laws. *See Westinghouse, supra*, at 647.[4]

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4. *Barber-Colman Co. v. National Tool Co.*, 136 F.2d 339 (6th Cir. 1943), illustrates one way in which misuse of patents may result in antitrust violations. In *Barber-Colman*, the plaintiff licensor, seeking equitable relief, complained of defendant licensee's violation of a price control clause in a patent licensing agreement. Plaintiff had licensed defendant to use plaintiff's

(Continued on following page)

The Supreme Court has also emphasized that there are limits on the control a patent holder may exercise over his licensee:

> Among other restrictions upon him, he may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use or sell another article of commerce not within the scope of his patent monopoly.

Zenith Radio, supra, at 136.

The Second Circuit has held that no liability exists under Section 2 of the Sherman Act on the part of one who has lawfully acquired the patent, and subsequently unilaterally refuses to license the patent. *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982). Noting the conflict between these two statutory schemes as a result of the patent holder's power under the patent laws to exclude others from exploiting his invention, that court observed:

Footnote continued—

patented process on condition that defendant would not sell the unpatented product resulting from use of the process at a price lower than the price for which plaintiff sold the product. The court held this condition constituted a misuse precluding the aid of equity, and explained that using a patent to restrain commerce is not only beyond the scope of the grant of the patent, but also in direct violation of the antitrust law.

In *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 129 (9th Cir. 1954), the Court listed seven improper practices in connection with patents:

(a) Use of invalid patents in price fixing;

(b) Cross-licensing of patents;

(c) Attempts to extend the scope of patent monopoly;

(d) Illegal price fixing activities in connection with patents;

(e) Tieing patents to unpatented devices or processes;

(f) Seeking to extend the effect of an expired patent;

(g) Misuse of patents.

> [T]he primary purpose of the antitrust laws—to preserve competition—can be frustrated, albeit temporarily, by a holder's exercise of the patent's inherent exclusionary power during its term.

Id. at 1203. The *SCM* court concluded "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." *Id.* at 1206.

It is clear that the instant case presents, at most, claims for violation of state law ranging from breach of contract to fraud and misrepresentation, not a violation of Section 2 of the Sherman Act.

A patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others. *SCM Corp., supra.* Similarly, we conclude that the holder of a patent retains the power to exclude others from manufacturing, using, and selling his inventions without running afoul of the antitrust laws. Here, by terminating the sublicense agreement with the appellant, appellee merely exercised his power to exclude others from using the Insituform process, as was its right under 35 U.S.C. § 154. In so doing, it did not violate Section 2 of the Sherman Act.

Appellants contend that INA's termination of the agreement constituted a misuse of patent, rendering INA liable for antitrust violations. We reject this argument. A material issue of fact may exist as to whether INA was justified in terminating the contract, but mere breach of contract is not envisioned or included in the term "misuse of patent." The mere failure to observe state contractual obligations does not rise to the level of misuse of a patent

that will render one liable for violations of Section 2 of the Sherman Act.

Appellants also argue that INA has entered into the Insituform process through partial ownership of some of its other sublicensees. Apparently, appellants' point is that assuming both the position of licensor and of competitor with its licensees renders INA potentially liable for antitrust violations. INA has recognized this theory of appellants as charging "vertical integration," but persuasively argues that this theory is inapplicable to a patent monopolist.

We agree. There is no adverse effect on competition since, as a patent monopolist, INA, from the start, had exclusive right to manufacture, use, and sell his invention.

Although the Supreme Court has advised courts to exercise caution in granting summary judgment in antitrust suits, *Poller v. Columbia Broadcasting System, Inc.*, 368 U.S. 464 (1962), the Court has also recognized that courts may grant summary judgment in appropriate antitrust cases. *Matsushita Electric Industrial Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574 (1986).

We conclude that the grant of summary judgment in favor of INA was appropriate, and AFFIRM the district court.

APPENDIX B

(Filed October 6, 1987)

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 86-5446

MILLER INSITUFORM, INC. and THOMAS E. SMITH,
Plaintiffs-Appellants,

v.

INSITUFORM OF NORTH AMERICA, INC.; WILLIAM C. MILLER and IRA B. MILLER,
Defendants-Appellants.

Before: KRUPANSKY and GUY, Circuit Judges; and GILMORE, District Judge.

JUDGMENT

ON APPEAL from the United States District Court for the Middle District of Tennessee.

THIS CAUSE came on to be heard on the record from the said district court and was argued by counsel.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this court that the judgment of the said district court in this case be and the same is hereby affirmed.

IT IS FURTHER ORDERED that Plaintiffs-Appellees recover from Defendants-Appellants the costs on appeal,

as itemized below, and that execution therefor issue out of said district court, if necessary.

ENTERED BY ORDER OF
THE COURT

John P. Hehman, Clerk
/s/ John P. Hehman/ch
Clerk

Attest:

A True Copy
/s/ Michelle D. Man
Deputy Clerk

Issued as Mandate: 11/23/87
COSTS: $112.00

APPENDIX C

(Received March 18, 1986)

IN THE
UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT
OF TENNESSEE,
NASHVILLE DIVISION

NO. 3-84-0972

MILLER INSITUFORM, INC., et al.

v.

INSITUFORM OF NORTH AMERICA, INC., et al.

ORDER

On March 17, 1986, the Court held a hearing on the outstanding motions for summary judgment of defendant Insituform of North America ("INA") and defendants William and Ira Miller. For the reasons stated from the bench, summary judgment on the merits is GRANTED on all federal antitrust claims against defendant INA. All state claims against the defendants and all state counterclaims against the plaintiffs are DISMISSED without prejudice.

/s/ Thomas A. Wiseman, Jr.
Thomas A. Wiseman, Jr.
Chief Judge

APPENDIX D

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF TENNESSEE
NASHVILLE DIVISION

CIVIL CASE NO. 03:84-0972

MILLER INSITUFORM, INC., et al.,
Defendants,

v.

INSITUFORM OF NORTH AMERICA, INC., et al.,
Plaintiffs.

TRANSCRIPT OF HEARING

BEFORE THE
HONORABLE THOMAS A. WISEMAN, JR.
Nashville, Tennessee
March 17, 1986
1:00 p.m.

APPEARANCES:

For the Plaintiffs:
Gail Pigg, Esq.
Attorney at Law
219 Second Ave., No.
Nashville, Tn 37201

For the Defendants:

Steven A. Riley, Esq.
Andree K. Blumstein, Esq.
Attorneys at Law

Official Court Reporter:

John W. Tummel, RPR
801 Broadway, Rm. A839
Nashville, Tn 37203

* * *

[2] THE COURT: All right. We're here on Miller Insituform and others versus Insituform of North America and others.

I read all your papers, counsel, and I would like to hear from you, Ms. Pigg, first of all on the tie-in aspect of the case. Tell me what your position is with respect to whether or not a patent is a commodity and also what your position is with respect to whether or not the liner is a separate—two different properties, or whether or not it's all part of the same ball of wax.

MS. PIGG: Your Honor, I've never had the privilege of appearing before you, so I'll introduce myself, Gail Pigg of the Nashville Bar.

THE COURT: Yes, I know you, Ms. Pigg, and we're glad to have you.

MS. PIGG: Thank you, sir.

Let me respond to the last question first. I have some problem, I guess, or I don't know if it's a problem or what, but in being totally candid because I do not want to go through a lengthy trial of an issue that's going to take the Court's time and mine and cost my client money.

Insofar as the tie-in arrangment, I will not be able to show that they are not, that the bag is not an integral —integrally related with the Insituform product. I cannot do that.

[3] THE COURT: With the process.

MS. PIGG: With the process; that's right. The product I might refer to is processed. I simply, in all candor, will not be able to show that.

And insofar as to whether the patent is a commodity, well, that's one I was not quite prepared for. Certainly, I would have to say that it has got to be a commodity to the extent that it can be licensed; it can be assigned.

THE COURT: The process can be licensed.

MS. PIGG: The process can be.

THE COURT: How would you differentiate between the licensing of a process, a patented process and a franchise, licensing of a franchise?

MS. PIGG: Well, purportedly, the licensing of—a franchise holder might not always hold the patent rights. Here, I think that there is one and I have gone to exhaustive lengths to try to find that there wasn't, but have not been able to come up with that.

THE COURT: Well, the reason I asked you to make or dispute that analogy is that there's considerable case law that says that a franchise, for instance, is not a commodity under the Clayton Act.

MS. PIGG: Your Honor, I have not gone into the cases to determine, in direct answer. I learned since this case started that what I think might be the law might be right [4] opposite. And as to whether the patent is a commodity, my unlady-like phrase, gut reaction, is that it's not a saleable commodity in the—it's not a saleable commodity, no. I think that what the Court said earlier, the distinction the Court drew between the process itself,

the patent itself, can be assigned, the patent rights to that patent. There's no question in my mind about that particular point.

What gives me the problem from that point on is whether a product that's not actually a part of it, the bag is not an actual part of it. What we're dealing with here almost is an idea that just got some way put on paper, but it's purely a process.

THE COURT: Well, I'm asking you to distinguish. Now, let's say that the liner is a commodity. It is the tied under your allegation, it is the tied commodity. But both the tying commodity and the tied commodity have to be commodities.

MS. PIGG: I understand that.

THE COURT: And the patent process is not a commodity, then, whether or not there is a tie-in. We don't have both sides of the coin, do we?

MS. PIGG: I'm almost afraid to answer either way.

THE COURT: All right, let me move you to another place, then, on misuse of the patent, alleged misuse of the patent for the purpose of what, misuse to achieve * * *.

* * *

* * * [19] federal statute. If that's the holding of the Court, then I've no choice but to try to pursue my clients' interest in state court. But I would submit to the Court that that is a very dangerous precedent for all of those people who do function in—as sublicensees, as franchisees, as licensees, as distributors.

I would submit to the Court that the Court should weigh that with grave, grave responsibility.

Also, I would point out to the Court—well, as I cited in my brief, I don't think I could recall the case if my life depended on it. But the Supreme Court case, whereby Justice Clark in 1961, said that summary judgment should be used very, very sparingly in antitrust litigation because so much is involved, surrounds the intent of the parties. So, I'm simply—submit the case to the Court and rest.

Thank you, Your Honor.

THE COURT: Well, Ms. Pigg, I'm aware of the Clark opinion. I'm also aware of later opinions which are instructive in today's litigation in particular in which the courts are instructed to take an early-on look at antitrust cases and make certain that there is not expensive, time-consuming litigation where there is no injury to competition.

Now, insofar as the trial of a fact question on the intent of the parties here, the only intent question, it would appear to me, would be whether or not the defendant, [20] Miller Insituform of North America intended to give you the benefit of every reasonable intendment from your pleadings and say that they intended to terminate your man so that they could vertically integrate and take over the market themselves.

MS. PIGG: I agree.

THE COURT: That would be the intent question. Let's say for the purposes of this motion for summary motion that that's exactly what they intended to do, they wanted to get your man out of the picture so they could repossess that portion of the pie that they had granted to him by way of a license. That still doesn't—

you're talking about what this Court should be concerned about. I'm concerned about anybody who feels that their legal rights have been abused, but my jurisdiction is statutory. And all these parties are Tennessee residents and there is no diversity jurisdiction upon which I could base this Court's willingness or desire to act in the case. I must rely upon the federal statutory grants under Article 3 of the Constitution of the jurisdiction of this Court.

Now, we've got the antitrust act, we've got the Sherman Antitrust Act, Section 2. I already threw out the Section 1 claim. We've got the Clayton Act claim and we've got the patent law, that all applies here and it just appears to me, Ms. Pigg, that although you may have the most meritorious of claims under a theory of fraud, misrepresentation, [21] a breach of contract, over reaching, unconscionable conduct or whatever, I cannot see a Clayton Act case on a tie-in because you conceded that, and I can't see a Sherman Act 2 claim on monopolization because of the just patent inconsistency of such a claim when it regards the use of a patent.

As I stated earlier, Miller Insituform of North America has a hundred percent of the pie; they have got by definition, a monopoly, and their choice to do something less that that is solely their choice. There is no refusal-to-deal question in patent cases. Their choice to change that decision and totally verticalize their operation is a matter that is exclusively within their prerogative unless it involves a breach of contract. So I don't think I have any choice, Ms. Pigg.

The Court will grant summary judgment for the reasons stated. The Court will grant summary judgment

on all the federal claims which will be a decision on the merits as to all state claims asserted by the plaintiff against Miller Insituform of North America or against the Millers. This is not a judgment on the merits, but is a dismissal without prejudice because such pendant claims now remain without a federal jurisdictional base.

The Clerk will enter an appropriate order and the case will be dismissed.

Court will be in recess.

(Whereupon, court was recessed.)

(7)

Supreme Court, U.S.
FILED
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No. 87-1029

In The

Supreme Court of the United States

October Term, 1987

MILLER INSITUFORM, INC.,
and THOMAS E. SMITH,

vs. *Petitioners,*

INSITUFORM OF NORTH AMERICA, INC.,
WILLIAM C. MILLER, and IRA B. MILLER,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENT INSITUFORM OF NORTH AMERICA, INC.

STEVEN A. RILEY
(Counsel of Record)
R. DALE GRIMES
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238
(615) 244-5370
Counsel for Respondent
Insituform of North America, Inc.

Dated: January 19, 1988

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTIONS PRESENTED FOR REVIEW

The petition seeks review of a single issue:

> Was Insituform of North America, Inc. properly granted summary judgment because its termination of the patent license agreement did not violate Section 2 of the Sherman Act?

PARTIES TO THE PROCEEDINGS

Petitioners Miller Insituform, Inc. and Thomas E. Smith were appellants below. Respondents Insituform of North America, Inc., William C. Miller, and Ira B. Miller were appellees below.

Insituform of North America, Inc. ("INA") is a publicly-held corporation. INA is aware of affiliation by contract or common ownership with the following publicly-held corporations:

Insituform Group, Ltd.
Insituform East, Inc.
Insituform Gulf South, Inc.
Insituform Mid-America, Inc.
Insituform Southeast, Inc.

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BRIEF OF RESPONDENT INSITUFORM OF NORTH AMERICA, INC.

STATEMENT OF THE CASE

A. Nature of the Case.

Respondent Insituform of North America, Inc. ("INA") is the exclusive United States licensee of a patented process for rehabilitating sewers and other pipelines ("the Insituform Process"). Petitioner Miller Insituform, Inc. ("MII") was at one time the exclusive sublicensee of INA for the use of the Insituform Process in Tennessee, Kentucky, and southern Ohio. Petitioner Thomas E. Smith ("Smith") is the president and a shareholder of MII.

On appeal, this case involves the single claim by MII that INA violated Section 2 of the Sherman Act by terminating the sublicense agreement between them. (15 U.S.C. § 2). INA submits that no violation of Section 2 occurred because, among other reasons, under the patent laws, INA has a "legal monopoly" of the Insituform Process in the United States. By virtue of its patent rights, INA has the right to prevent anyone from using the Insituform Process without its consent, including the right to terminate its relations with those it had previously sublicensed.

B. Course of Proceedings and Disposition Below.

The complaint brought by Petitioner MII and Petitioner Smith, a forty-nine percent shareholder of MII, alleged violations of Sections 1 and 2 of the Sherman Act (15 U.S.C. § 1 and § 2) and Section 3 of the Clayton Act (15 U.S.C. § 14) against Respondent INA and its President, Jack Massar, as well as pendent breach of

contract claims arising under state law against INA. (R. 1: Complaint; R. 42: First Amendment to Complaint).[1] Jurisdiction was invoked on the basis of a federal question arising under the antitrust laws, 15 U.S.C. § 15 and § 26.

On a first motion for summary judgment, the District Court dismissed Defendant Massar and all federal antitrust claims asserted by Petitioners against INA except the following:

1. Whether the termination of the sublicense agreement constituted monopolization or an attempt to monopolize under Section 2 of the Sherman Act; and

2. Whether INA illegally tied the purchase of materials necessary for use in the Insituform Process to the sublicense agreement in violation of Section 2 of the Sherman Act or Section 3 of the Clayton Act.

(R. 20: Memorandum; R. 21: Order entered March 27, 1985).

Following the completion of factual discovery, INA sought summary judgment on the two remaining federal claims against it.[2] (R. 52: Motion of Respondent

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[1] The complaint also alleged a pendent state law claim for misrepresentation against Respondents William C. Miller (another shareholder of MII) and Ira B. Miller (a former shareholder of MII). (R. 1: Complaint at p. 12-13).

[2] In that motion, INA also challenged the standing of Petitioner Smith to bring an antitrust action and requested the Court to dismiss the pendent state law claim for breach of contract.

INA for Summary Judgment). To avoid the possible existence of a disputed issue of fact concerning the market share of INA in a properly-defined market, for purposes of the summary judgment motion only, INA asked the court to assume *arguendo* that the product market only included the Insituform Process, and that INA had 100% of the market.[3]

At the hearing on the motion, Petitioners conceded that they could not prove an unlawful tying arrangement. (R. 81: Transcript of Hearing at p. 21). The District Court found that the termination of MII's sublicense did not violate Section 2 (*Id.* at p. 2-4) and

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[3] Relevant to Petitioners' claim of monopolization was the issue of whether INA possessed monopoly power in the relevant market. Petitioners alleged that the relevant product market was the Insituform Process itself (to the exclusion of the many other methods of pipeline rehabilitation) and that INA, through its patent rights, controlled 100% of this market. Petitioners did not present any facts to support this allegation. INA denied this market definition and presented facts showing that there are many alternative methods for repairing, replacing, or rehabilitating pipelines, all of which are competitive with the Insituform Process. (R. 55: Affidavit of Jack Massar at ¶ 18). Petitioner Smith and another representative of MII, also admitted the substitutability of these other methods. (R. 48: Smith Deposition at p. 79-83, 85; R. 55: Ledbetter Deposition at p. 10, 22). There is also evidence in the record that while the United States pipeline rehabilitation industry probably involved nearly $1 billion annually, INA's sublicensees performed less than $20 million of rehabilitation work in calendar year 1984, their best year to that point. (R. 55: Affidavit of Jack Massar at ¶¶ 19-20).

accordingly dismissed the remaining antitrust claims as well as the pendent state law claims. (R. 80: Order entered March 19, 1986). The *only* issue raised by Petitioners at the Court of Appeals was the dismissal of the Section 2 claim. The Sixth Circuit Court of Appeals affirmed in an opinion published at 830 F.2d 606 (6th Cir. 1987).

C. Statement of Relevant Facts.

The Insituform Process is a method of rehabilitating sewer and waste water pipelines, primarily patented by U.S. Patent No. 4,064,211. (R. 55: Massar Affidavit at ¶ 3). INA is the exclusive licensee of Insituform International, N.V., the owner of the patent, for the use of the patented process in the United States. (*Id.*). INA does not itself practice the patented process but, instead, has entered into approximately ten sublicense agreements. (*Id.* at ¶ 4). These agreements grant the sublicensees the exclusive right to use the patented process in specific geographical territories throughout the United States. (*Id.*). Territorial limitations are enforced by requiring licensees who perform work in another's territory to make a "crossover payment" to the sublicensee in whose territory the work is done. (*Id.*).

INA and MII entered into a sublicense agreement for the exclusive territory of Tennessee, Kentucky, and southern Ohio. (*Id.* at ¶ 5). The agreement required MII to establish that it had a net worth of $500,000 within

90 days.[4] (*Id.*). INA repeatedly requested MII to satisfy this requirement. After these requests went unheeded for a number of months after the deadline, INA terminated the sublicense agreement because of MII's failure to fulfill this express condition. (R. 55: Massar Affidavit at ¶ 11).

After the termination of MII's sublicense agreement, INA took no immediate action to relicense MII's former territory. (*Id.* at ¶ 14). Two months later, INA was approached by one of its sublicensees, Insituform East, which requested the southern Ohio portion of the territory. (*Id.*). After nearly a year of discussion, INA licensed southern Ohio to Insituform East. (*Id.*). INA had no ownership interest in or control of Insituform East. (*Id.*). The remainder of the territory, Tennessee and Kentucky, remained unlicensed as of the date of the summary judgment motion. (*Id.* at ¶ 15). Those

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[4] INA explained the purpose of the net worth requirement as follows:

> INA requires a minimum net worth of $500,000 because it wants to insure that its sublicensees can adequately develop the territories they have been granted. In fact, paragraph XII of the sublicense agreement provides that the sublicensees will retain a net worth of at least $500,000 at all times to assure its financial ability to meet its obligations under the agreement.

(R. 15: Affidavit of Jack Massar at ¶ 5).

states were "open territory" and all licensees were free to perform any work available there.[5] (*Id.*).

REASONS FOR DENIAL OF THE WRIT

None of the reasons for granting a writ of certiorari are present here. (U.S. Sup. Ct. R. 17). The decision of the Sixth Circuit is consistent with this Court's prior decisions as well as decisions of other circuits. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982).

Petitioners simply refuse to accept the fact that allegations of breach of contract or fraud by a patent holder, without more, do not give rise to antitrust claims. As noted by the Sixth Circuit, the law recognizes that certain conduct by a patent holder can violate the antitrust laws. For example, a patent holder

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[5] INA informed the trial court, after filing the motion, that it had subsequently sublicensed the remainder of MII's former territory (Kentucky and Tennessee) to a partnership, Insituform Mid-South, consisting of two existing licensees of INA (Insituform East, Inc. and Insituform Southeast, Inc.), with INA owning a fifteen percent interest. (R. 77: INA's Reply Memorandum at p. 5).

can violate the antitrust laws by attempting to extend its power to any market beyond that created by the patent grant. *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 129 (9th Cir. 1954). Petitioners argue that the termination of the license was a "deliberate" breach of contract or was somehow fraudulent and, therefore, gives rise to an antitrust claim. Such conduct, however, has never been found to be the basis of a violation of the antitrust laws; nor should it be. Such conduct does not increase the economic power of a patent monopolist beyond the scope of the patent grant. Termination of a license, even if in breach of contract or somehow fraudulent, is simply not the kind of misuse of patent rights that can give rise to a Section 2 claim.

Petitioners' argument that the patent law only gives the patent holder a right to exclude anyone *other than a licensee* is without a legal basis. The decision to "exclude" a person by refusing to license him is no different than the decision to exclude him by termination of his license, although the latter conduct could raise breach of contract claims. Exclusion by either means is the power given by the patent grant. *Smith International, Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir.), *cert. denied*, 464 U.S. 996 (1983).

CONCLUSION

Petitioners' claims of fraud and breach of contract are state law claims. Respondents' termination of Petitioner's license does not constitute a misuse of its patent power prohibited by the antitrust laws. The decisions of this Court and federal appeals courts are in accord. No reason exists for this Court to grant the writ.

Respectfully submitted,

STEVEN A. RILEY
(Counsel of Record)
R. DALE GRIMES
Bass, Berry & Sims
2700 First American Center
Nashville, Tennessee 37238
(615) 244-5370
Counsel for Respondent
Insituform of North America, Inc.

(3)

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No. 87-1029

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OCTOBER TERM, 1987

MILLER INSITUFORM, INC. and
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ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENTS WILLIAM C. MILLER AND IRA B. MILLER IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

Andrée Kahn Blumstein
(Counsel of Record)
Trabue, Sturdivant & DeWitt
L & C Tower, 26th Floor
Nashville, Tennessee 37219
(615) 244-9270
Counsel for Respondents
William C. Miller and
Ira B. Miller

E. L. MENDENHALL, INC., 926 Cherry Street, Kansas City, Mo. 64106, (816) 421-3030

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I.

REASONS FOR REFUSING THE WRIT

A. Summary of Argument.

Respondents William C. Miller and Ira B. Miller submit this brief in opposition to the petition for a writ of certiorari seeking review of the judgment of the Court of Appeals for the Sixth Circuit entered in this case on October 6, 1987, *Miller Insituform, Inc. v. Insituform of*

North America, Inc., 830 F.2d 606 (6th Cir. 1987). Petitioners advance two arguments in support of their request for review. First, they contend that the judgment of the Court of Appeals, if not reversed, would set a precedent allowing patent holders to abuse their patents in violation of the federal antitrust laws without check. Second, petitioners assert that the judgment below is in conflict with opinions of various district courts and "with the construction placed on 35 U.S.C. § 154" by this Court. Petition for a Writ of Certiorari at 6. Neither argument is correct, and neither argument presents the "special and important" considerations that are a necessary prerequisite to this Court's exercise of discretion in favor of review. Sup. Ct. R. 17.1.

B. The Judgment Below in No Way Sanctions Abuse of Patents by Patent Holders.

The key question in this case is whether the holder of a patent who terminates a contract under which he has sublicensed his patent thereby violates § 2 of the Sherman Act, 15 U.S.C. § 2. The federal patent law expressly gives a patentee "the right to exclude others from making, using, or selling the invention. . . ." 35 U.S.C. § 154. The very object of the patent law is to grant a legal monopoly to the patentee in order to foster useful inventions. Accordingly, it has long been the general rule that the holder of a legally acquired patent may engage in conduct that might otherwise be deemed an actionable restraint of trade. The patent holder may, *inter alia*, refuse to license the patent to others, and may reserve exclusive use to himself. *E.g., Bement v. National Harrow Co.*, 186 U.S. 1058 (1902); *Morton Salt Co. v. Suppiger*, 314 U.S. 488 (1942); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2nd Cir. 1981), *cert. den.*, 455 U.S.

1016 (1982). The Sixth Circuit opinion in this case correctly identifies this general rule for dealing with the tension between a monopoly created under the patent law and monopolies proscribed by the antitrust laws. *Miller Insituform, Inc. v. Insituform of North America, Inc.*, 830 F.2d 606, 608 (6th Cir. 1987).

At the same time the Sixth Circuit, also correctly, recognizes that a patent monopoly is a limited monopoly. *Id.* The Sixth Circuit emphasizes, accordingly, this Court's holding in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969), that use of a patent to restrain trade *beyond the scope granted by the patent* may result in an antitrust violation. 830 F.2d at 609. For example, tying the license of a patent to unpatented articles of commerce is an illegal attempt to expand the patent monopoly beyond its scope. *Morton Salt Co. v. Suppiger,* 314 U.S. at 491. In short, the Sixth Circuit, in setting out the law applicable to the question before it, clearly and properly distinguishes between permissible maintenance of the limited monopoly power that is the natural and intended consequence of a lawfully acquired patent and impermissible patent abuse *outside* the scope of the patent monopoly.

The court below also correctly applied these well-settled legal standards to the issue before it. The Sixth Circuit reasons that, as patent holder, respondent Insituform of North America ("INA"), has the right under 35 U.S.C. § 154 to exclude all others from using its patent. *Miller Insituform, Inc. v. Insituform of North America, Inc.*, 830 F.2d at 609. INA's termination of its sublicense agreement with petitioners was nothing more than an exercise of that right. *Id.* Such termination, even if it were a breach of the contract, is not an abuse of the patent; it is conduct clearly within the scope of the patent monopoly. *Id.*

Thus, the Sixth Circuit has correctly stated and applied well-established legal principles in rendering its decision. Nothing in its opinion could possibly be read to invite "greater fraud and abuse in the marketplace by patent holders," Petition for a Writ of Certiorari at 8, because the opinion below draws a clear line between the patentee's right to exclude others and his duty not to misuse the patent grant. Review predicated on petitioners' assertions to the contrary is unwarranted.

C. The Decision of the Sixth Circuit Is Not in Conflict With a Decision of Any Other Federal Court of Appeals and Is Not at Odds With This Court's Interpretation of 35 U.S.C. § 154.

A discretionary review on writ of certiorari will be granted only when there exist "special and important reasons therefor." Sup. Ct. R. 17.1. One such reason may be present "[w]hen a federal court of appeals has rendered a decision in conflict with the decision of another federal court of appeals." *Id.* R. 17.1(a). This is, however, not the case here. The decision of the Sixth Circuit in the case at bar does not conflict with the decision of another federal court of appeals, and, indeed, petitioners point to no such conflict.

Instead, petitioners rely on what they profess to be a conflict with decisions of federal *district* courts. Petition for a Writ of Certiorari at 6-7. None of the district court cases cited in the Petition in fact conflicts with the decision of the Sixth Circuit. But even if such a conflict did exist, that would not present a proper occasion for granting certiorari. The policy behind granting certiorari to resolve conflicts among the *circuits* is to

achieve a uniform application of federal law in the intermediate federal courts. The Supreme Court is the only court that can bring such consistency. That policy does not pertain, however, when the conflict is one between a federal trial court and a federal appellate court, since such a conflict is a matter capable of resolution by the courts of appeal. Harlan, *Manning The Dikes,* 13 Rec. A.B. City N.Y. 541, 552 (1958).

Finally, petitioners offer in support of review a purported conflict between the Sixth Circuit's decision and this Court's construction of 35 U.S.C. § 154. Here, again, there simply is no conflict. In *Morton Salt Co. v. Suppiger,* 314 U.S. 488, 492 (1942), this Court recognized that the patent laws grant the patent holder a monopoly. The Court simultaneously noted that the monopoly is a limited one: it is limited to the exclusive right of the patent holder to make, use and vend the patented article during the term of the patent. *Id.* at 491. This is precisely the "construction" placed upon 35 U.S.C. § 154 by the Sixth Circuit in this case. *Miller Insituform, Inc. v. Insituform of North America, Inc.,* 830 F.2d at 608-609. Since there is no conflict requiring resolution by this Court, the petition for certiorari should be denied.

II.

CONCLUSION

The petition for certiorari should not be granted. There are no special or important reasons that even suggest that review is merited. The Sixth Circuit's affirmation of the district court's summary judgment in favor of respondents is based on well-established legal principles correctly applied to the facts. The Sixth Circuit's decision is not in conflict with the decision of another federal court of appeals on the same matter, nor is it at odds with the decisions of federal district courts or with prior decisions of this Court.

Respectfully submitted,

Andrée Kahn Blumstein
Trabue, Sturdivant & DeWitt
L & C Tower, 26th Floor
Nashville, Tennessee 37219
(615) 244-9270
Counsel for Respondents
William C. Miller and
Ira B. Miller

CERTIFICATE OF SERVICE

I hereby certify that three (3) copies of the foregoing Brief of Respondents in Opposition to Petition For A Writ of Certiorari have been forwarded by first class mail, postage prepaid, to Steven A. Riley, BASS, BERRY & SIMS, 2700 First American Center, Nashville, Tennessee 37238, Counsel for Respondent, Insituform of North America, Inc., and to Gail P. Pigg, 219 Second Ave., North, First Floor Suite, Nashville, Tennessee 37201, Counsel for Petitioners, this the 19th day of January, 1988.

Andrée K. Blumstein